

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
PLEASANT VALLEY, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2005

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PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2004 Election)		
Deborah Dayman	President	2004
Tana Barsness	Vice President	2005
Kathy Kaminski	Board Member	2004
Kevin O'Hara	Board Member	2005
John Hoffmann	Board Member	2005
Dan Schurr	Board Member	2006
Joanne Messman	Board Member	2006
<u>Board of Education</u>		
(After September 2004 Election)		
Deborah Dayman	President	2007
Tana Barsness	Vice President	2005
Kevin O'Hara	Board Member	2005
John Hoffmann	Board Member	(Resigned 4-18-05) 2005
Pamela Paulsen	Board Member	(Appointed 6-6-05) 2005
Kathy Kaminski	Board Member	2005
Dan Schurr	Board Member	2006
Joanne Messman	Board Member	2006
<u>School Officials</u>		
Dr. James R. Spelhaug	Superintendent	2008
Cyndy Behrer	Assistant Superintendent	2007
Mike Clingingsmith	Chief Financial Officer	2007
Christine Harvey	District Secretary	2005
Joyce E. Bauwens	District Treasurer	2005
Lane & Waterman	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Pleasant Valley Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Pleasant Valley Community School District, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Pleasant Valley Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2005 on our consideration of Pleasant Valley Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 22 and 54 through 55 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pleasant Valley Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
September 14, 2005

Management Discussion and Analysis

This section of the Pleasant Valley Community School District's annual financial report presents its discussion and analysis of the district's financial performance during the fiscal year ending June 30, 2005. The analysis focuses on the district's financial performance as a whole. Please read it in conjunction with the district's financial statements, which immediately follow this section.

Financial Highlights

- Construction continued on two major projects during the 2004-05 fiscal year. One project was an approximately 6,900 square foot classroom addition at Bridgeview Elementary School, LeClaire, Iowa. Construction had started on this project in the spring of 2004. This project also included remodeling of approximately 1,240 square feet of existing building space. Total expenses related to the project through June 30, 2005 were \$ 936,061. The second major project consisted of a music addition and a wellness addition at Pleasant Valley High School, Riverdale, Iowa. Construction had started on this project in the spring of 2004. The total square feet for the music and wellness additions are approximately 15,890 square feet. This project also includes remodeling of approximately 8,070 square feet of existing building space. Total expenses related to the project through June 30, 2005 were \$ 2,496,672. Both the Bridgeview Elementary School and Pleasant Valley High School projects are being funded with Physical Plant and Equipment Levy (PPEL) receipts and Local Option Sales and Services Tax for School Infrastructure receipts.
- Interest rates increased during the 2004-05 fiscal year. The district's governmental and business-type activities bank accounts earned \$ 130,969 during 2004-05, an increase of \$45,096 from the \$ 85,873 that those accounts earned during the 2003-04 fiscal year. The district utilizes "sweep" accounts in the General, Management, Physical Plant and Equipment Levy (PPEL) and Nutrition Funds for the purpose of maximizing interest income.
- Management Fund cash decreased by \$ 245,767 during 2004-05. Two major factors contributed to this. The first major factor was a decrease in the Management Fund property tax levy rate from \$0.47 per \$1,000 taxable valuation in 2003-04 to \$0.30 per \$1,000 taxable valuation in 2004-05. The reduction in the levy resulted in \$ 129,850 less in property tax revenue in Management Fund in 2004-05 compared to the previous fiscal year. The other major factor in the Management Fund cash balance decline was a \$77,313 increase in the district's business protection insurance policy. The following types of coverage are included in the business protection insurance policy: property, liability, crime and fidelity, inland marine, automobile, workers' compensation, umbrella, linebacker, pollution and excess liability. Among these, the largest increase was in workers' compensation, which increased by \$ 49,224 (52.8%) over the previous fiscal year.
- Capital Projects Fund cash decreased by \$ 1,144,515 during 2004-05. This decrease was mainly due to significant payments being made during the year on the Bridgeview Elementary School classroom addition and the Pleasant Valley High School music and wellness addition projects.

- The undesignated fund balance in the district's General Fund increased by \$ 34,124 from \$ 1,116,090 at June 30, 2004 to \$ 1,150,214 at June 30, 2005. General Fund revenues increased by \$ 1,787,200 from \$ 20,925,681 in 2003-04 to \$ 22,712,881 in 2004-05. Therefore, the district's General Fund solvency ratio (undesignated fund balance divided by total revenues) dropped from 5.33% at June 30, 2004 to 5.06% at June 30, 2005.
- The district's 2004-05 certified enrollment (resident headcount) increased by 44.1 students over the 2003-04 certified enrollment. This headcount is taken on the third Friday of each September. The district's certified enrollment as of September 17, 2004 was 3,208.4 students. A district's certified enrollment is used in determining funding through the state foundation formula in the fiscal year immediately after the fiscal year when the certified enrollment count is taken.
- The district special education deficit for 2004-05 was \$ 375,821. This was a \$ 147,203 decrease from the previous fiscal year's cash basis special education deficit of \$ 523,024. This deficit is a result of services that are required as part of a student's IEP (Individualized Education Program).
- The state of Iowa makes an estimate each year of the dollar amount that will be collected from the local option sales and services tax for school infrastructure for each school district in each county that has passed the tax. Local option sales tax receipts for the year are then based on 95% of that estimate. A reconciliation to the actual amount collected is done once per year each November. In November 2004, Pleasant Valley Community School District received a reconciliation payment of \$ 114,495. The district had a total of \$ 2,547,333 in local option sales and services tax for school infrastructure revenue in 2004-05.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

- The first two statements are **district-wide financial statements** that provide both short-term and long-term information about the district's **overall** financial status.
- The remaining statements are **fund financial statements** that focus on **individual parts** of the district, reporting the district's operations in more detail than the district-wide statements.
- The **governmental funds statements** tell how basic services such as regular and special education were financed in the **short term** as well as what remains for future spending.
- **Proprietary funds statements** offer **short-term and long-term** financial information about the activities the district operates like businesses, such as food services.
- **Fiduciary funds statements** provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district’s budget for the year. Figure A-1 below shows how the various parts of this annual report are arranged and related to one another.

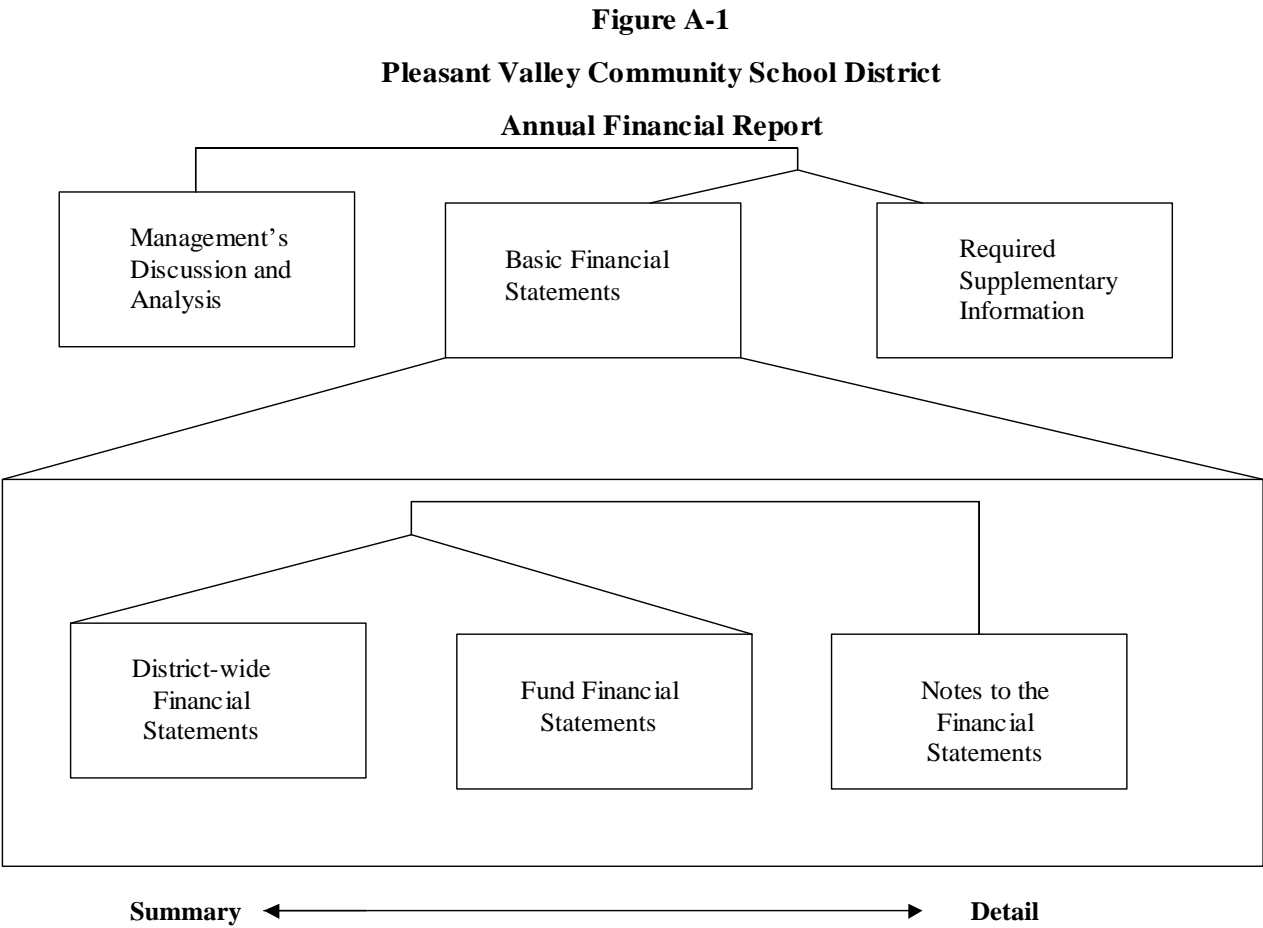


Figure A-2 on the next page summarizes the major features of the district’s financial statements, including the portion of the district’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

District-wide Financial Statements

Figure A-2: Major Features of the District Wide and Fund Financial Statements				
	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: Food Services program is included here	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and reunion moneys
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can

District-wide Financial Statements

The district-wide statements report information about the district as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the district's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the district's **net assets** and how they have changed. Net assets – the difference between the district's assets and liabilities – is one way to measure the district's financial health or **position**.

- Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the district's overall health, you need to consider additional non-financial factors such as changes in the district's property tax base and the condition of school building and other facilities.

In the district-wide financial statements, the district's activities are divided into two categories:

- **Governmental activities:** Most of the district's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.
- **Business-type activities:** The district charges fees to help it cover the costs of certain services it provides. The district's Food Services program would be included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the district's funds, focusing on its most significant or "major" funds – not the district as a whole. Funds are accounting devices the district uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The district establishes other funds to control and manage money for particular purposes, (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The district has three kinds of funds:

- **Governmental funds:** Most of the district's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between the two statements. The district's major governmental funds for 2004-05 include the General Fund and a Special Revenue Fund (the Physical Plant and Equipment Levy (PPEL) Fund). The Non-major governmental funds include two Special Revenue Funds (Management Fund and Student Activities Fund) and the Capital Projects Fund.
- **Proprietary funds:** Services for which the district charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The district's **enterprise funds** (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The district currently has one enterprise fund, the Nutrition Fund. The district uses **internal service funds**, the other kind of proprietary fund, to report activities that provide supplies and services for other district programs and activities. The district currently has one internal

service fund, which is used to account for the district's self-funded health and dental insurance plans.

- **Fiduciary funds:** The district is the trustee, or **fiduciary**, for assets that belong to others, including two scholarship funds and a reunion fund. The district accounts for outside donations for scholarships for individual students in this fund. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The district excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets. The district's combined net assets as of June 30, 2005 grew by \$ 2,783,837 (11.4%) over the June 30, 2004 combined net assets. (See Figure A-3) Most of the dollar increase in net assets was from the governmental activities whose net assets grew by \$ 2,702,204 (11.2%). The net assets of the district's business-type activities grew by \$ 81,633 (26.4%).

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	@ 6-30-2004	@ 6-30-2005	@ 6-30-2004	@ 6-30-2005	@ 6-30-2004	@ 6-30-2005	2004-05
Current and other assets	18,174,711	18,472,577	327,617	426,988	18,502,328	18,899,565	2.1%
Capital assets	20,057,856	22,765,805	40,956	49,839	20,098,812	22,815,644	13.5%
Total Assets	38,232,567	41,238,382	368,573	476,827	38,601,140	41,715,209	8.1%
Long-term liabilities	1,131,977	1,131,903	0	0	1,131,977	1,131,903	0.0%
Other liabilities	12,921,265	13,224,950	59,173	85,794	12,980,438	13,310,744	2.5%
Total Liabilities	14,053,242	14,356,853	59,173	85,794	14,112,415	14,442,647	2.3%
Net assets							
Invested in capital assets, net of related debt	20,057,856	22,765,805	40,956	49,839	20,098,812	22,815,644	13.5%
Restricted and Designated	3,606,883	3,860,595	0	0	3,606,883	3,860,595	7.0%
Unrestricted	514,586	255,129	268,444	341,194	783,030	596,323	-23.8%
Total net assets	24,179,325	26,881,529	309,400	391,033	24,488,725	27,272,562	11.4%

The main factor in this increase in net assets was due to the increase in capital assets in the district. As was mentioned in the "Financial Highlights" section of this report, there were significant expenditures during the fiscal year related to a classroom addition at Bridgeview Elementary School and a music and wellness addition at Pleasant Valley High School. All of these building projects were funded with receipts from the Physical Plant and Equipment Levy and Local Option Sales Tax. No long-term debt was incurred to finance these projects. Total capital assets, net of depreciation, grew by \$ 2,716,832 in 2004-05.

Long-term liabilities, which consists of liabilities for early retirement and compensated absences, remained nearly steady, declining by only \$ 74 in 2004-05.

Total restricted and designated net assets for 2004-05 grew by 7.0% and unrestricted net assets declined by 23.8%. Significant increases in the fund balances in the Physical Plant and Equipment Levy (PPEL) and Internal Service Fund during 2004-05 were the main factors in the growth of the restricted and designated net assets. An accounting reclassification of compensated absences was the main factor in the decrease in unrestricted net assets.

Changes in net assets. The district's change in net assets for the years ended June 30, 2004 and June 30, 2005 are presented in Figure A-4 below.

Figure A-4
Changes in Net Assets from Operating Results

	Governmental Activities Fiscal Year Ended <u>6-30-04</u>	Governmental Activities Fiscal Year Ended <u>6-30-05</u>	Business- type Activities Fiscal Year Ended <u>6-30-04</u>	Business- type Activities Fiscal Year Ended <u>6-30-05</u>	Total School District Fiscal Year Ended <u>6-30-04</u>	Total School District Fiscal Year Ended <u>6-30-05</u>	Total Percentage Change Fiscal Year Ended <u>6-30-05</u>
Revenues:							
Program Revenues							
Charges for services	2,489,134	2,608,549	758,167	852,143	3,247,301	3,460,692	6.6%
Operating grants and contributions	2,197,972	2,186,062	209,884	219,331	2,407,856	2,405,393	-0.1%
Capital grants and contributions	0	349,313	0	0	0	349,313	-----
General revenues							
Property taxes	10,052,612	10,014,526	0	0	10,052,612	10,014,526	-0.4%
State foundation aid	8,863,955	10,263,066	0	0	8,863,955	10,263,066	15.8%
Local option sales and services tax	2,468,510	2,547,333	0	0	2,468,510	2,547,333	3.2%
Other	140,329	196,079	3,853	8,368	144,182	204,447	41.8%
Total revenues	26,212,512	28,164,928	971,904	1,079,842	27,184,416	29,244,770	7.6%
Expenses:							
Instruction	16,813,796	16,062,598	0	0	16,813,796	16,062,598	-4.5%
Support services	6,063,440	7,228,712	0	0	6,063,440	7,228,712	19.2%
Non-instructional programs	31,111	34,014	933,891	998,209	965,002	1,032,223	7.0%
Other	2,573,299	2,137,400	0	0	2,573,299	2,137,400	-16.9%
Total expenses	25,481,646	25,462,724	933,891	998,209	26,415,537	26,460,933	0.2%
Change in net assets before special item	730,866	2,702,204	38,013	81,633	768,879	2,783,837	262.1%
Special item:							
Gain on disposal of assets	0	0	0	0	0	0	-----
Increase (Decrease) in net assets	730,866	2,702,204	38,013	81,633	768,879	2,783,837	262.1%

Total revenue for the district increased by \$ 2,060,354 (7.6%) in the fiscal year ended June 30, 2005. Two of the most significant revenue category increases were in "Capital grants and contributions" under "Program Revenues" and "State foundation aid" under "General revenues". The majority of the revenues in the "Capital grants and contributions" category were related to the "Reaching for Excellence" fundraiser which was implemented to raise funds to provide equipment for the music and wellness additions at Pleasant Valley High School. During the 2004-05 fiscal year, \$ 158,730 in donations were received from individuals and businesses and \$ 150,000 was received in a grant from the Scott County Regional Authority for the purpose of purchasing equipment for the high school additions. Unrestricted state grants (State foundation aid) on the Statement of Activities increased in 2004-05 by \$ 1,399,111 over 2003-04. This was partially due to an increase in the district's General Fund combined district cost (which increased because of increased resident student enrollment and an increased district cost per pupil amount) and partially due to regular unrestricted state aid replacing the machinery and equipment replacement funds which the state had been distributing prior to the 2004-05 fiscal year. Other general revenues increased by \$ 60,265 (41.8%) in 2004-05 due mainly to higher amounts of interest income received because of increasing interest rates during the fiscal year (see the

second bullet point under “Financial Highlights” on the first page of this “Management Discussion and Analysis” report for more details).

Total district expenses increased by only 0.2% in 2004-05. Relatively low cash balances, especially in the General Fund, continue to cause cash flow concerns during the months of July through October since the district does not receive state aid in July or August and does not receive its first significant draw of property taxes until approximately October 15th of each year. Because of this cash flow issue, the district has been making every effort to minimize spending increases each year.

Figures A-5 and A-6, which follow, show charts reflecting sources of revenue and distribution of expenses for the 2004-05 fiscal year.

Figure A-5

Sources of Revenues for 2004-05 Fiscal Year

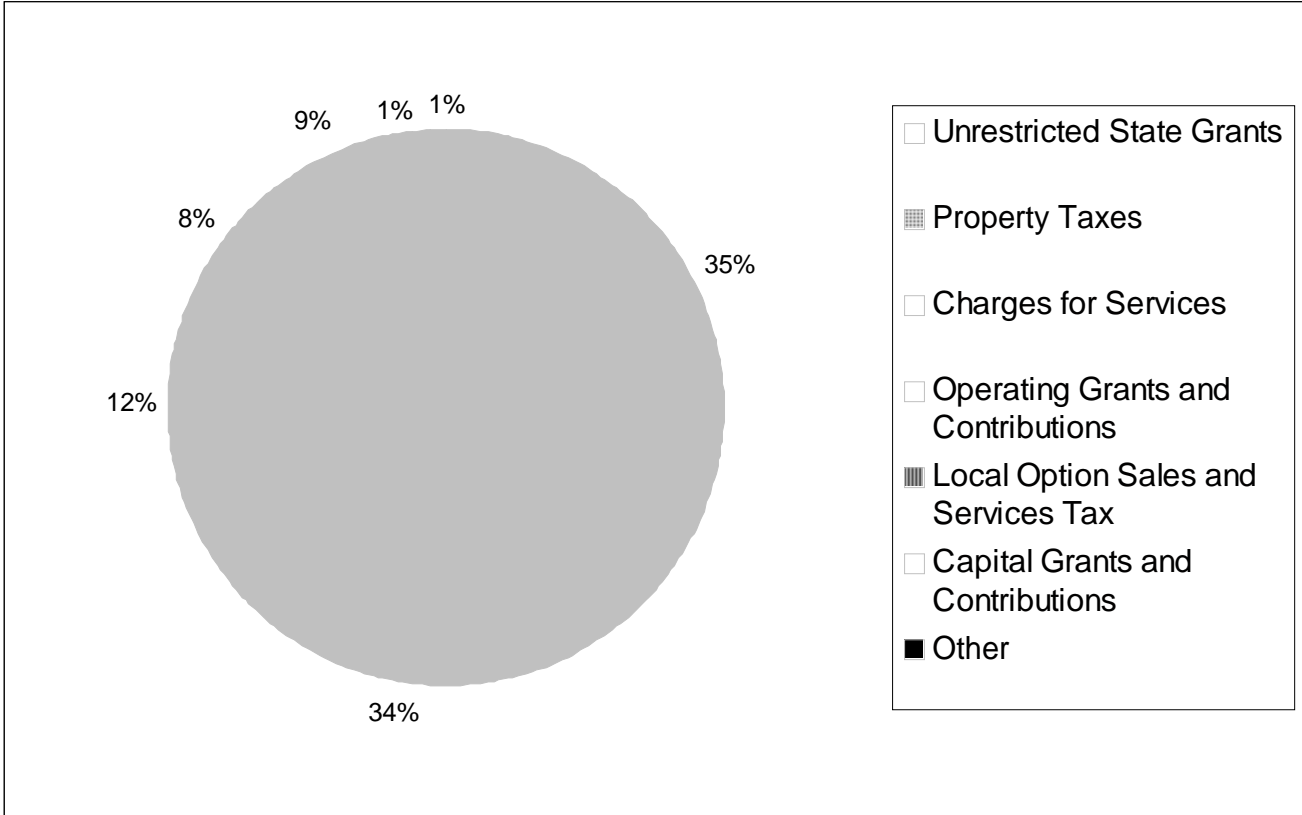
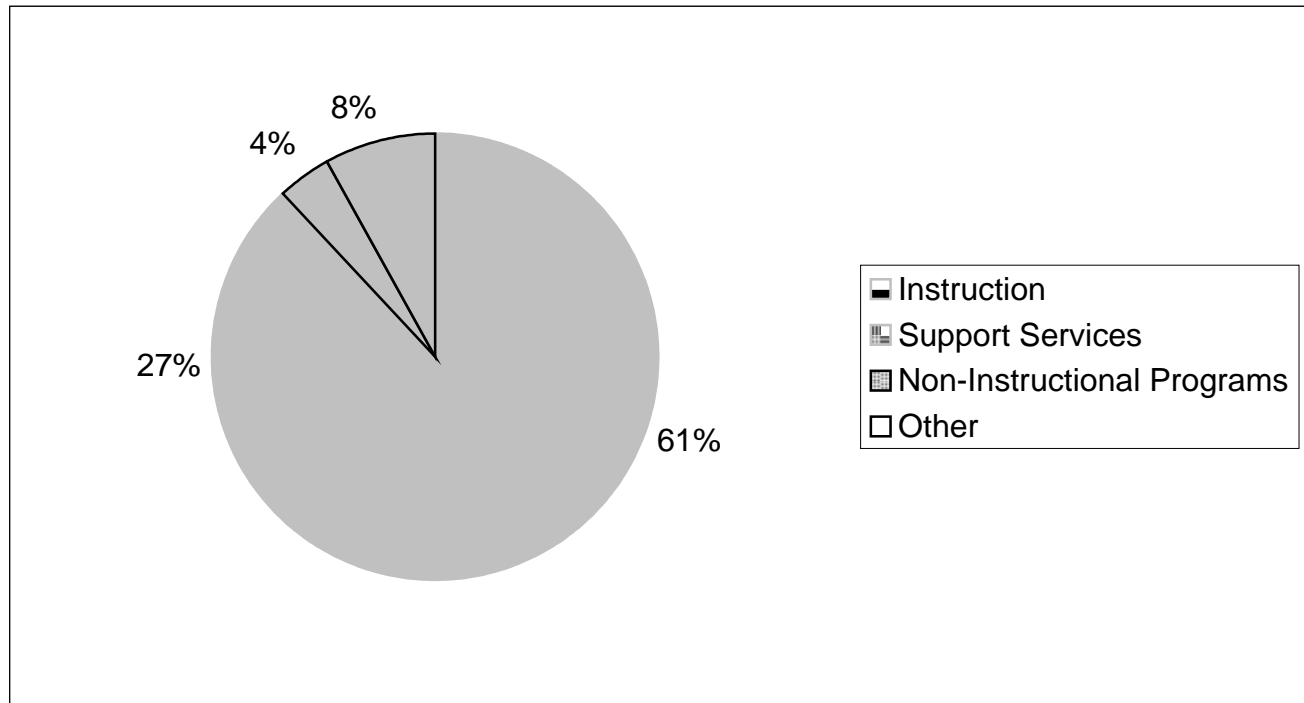


Figure A-6

Expenses for 2004-05 Fiscal Year



Governmental Activities

Revenue for the district's governmental activities in 2004-05 increased \$ 1,952,416 (7.4%) from the previous year, while total expenses decreased by \$ 18,922 (0.1%). Governmental activities net assets at June 30, 2005 increased by \$ 2,702,204 (11.2%) over the June 30, 2004 balance.

Figure A-7 presents the cost of four major district activities: instruction, support services, non-instructional and other. The table also shows each activity's **net cost** (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the district's taxpayers by each of these functions.

Figure A-7

Net Cost of Governmental Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	Fiscal Year Ended 6/30/2004	Fiscal Year Ended 6/30/2005		Fiscal Year Ended 6/30/2004	Fiscal Year Ended 6/30/2005	
Instruction	16,813,796	16,062,598	-4.5%	13,277,535	12,460,465	-6.2%
Support services	6,063,440	7,228,712	19.2%	5,762,005	6,907,595	19.9%
Non-instructional	31,111	34,014	9.3%	31,111	34,014	9.3%
Other	2,573,299	2,137,400	-16.9%	1,723,889	916,726	-46.8%
Total	25,481,646	25,462,724	-0.1%	20,794,540	20,318,800	-2.3%

- The cost of all governmental activities this year was \$ 25,462,724.
- Some of the cost (\$ 2,608,549) was financed by the users of the district's programs (see Figure A-4).
- The federal and state governments and some local sources subsidized certain programs with grants and contributions (\$ 2,535,375).
- Most of the district's costs (\$ 20,318,800), however, were financed by district and state taxpayers.
- This portion of governmental activities was financed with \$ 10,014,526 in property taxes, \$10,263,066 of unrestricted state aid based on the statewide finance formula, \$ 2,547,333 in local option sales and services tax revenue, \$ 122,601 in investment earnings and \$ 73,478 in miscellaneous revenues.

Business-Type Activities

Revenues of the district's business-type activities were \$ 1,079,842, an increase of 11.1% over 2003-04. Expenses were \$ 998,209, an increase of 6.9% over 2003-04. (Refer to Figure A-4). Factors contributing to these results included:

- The total of lunch, breakfast and ala carte sales continue to grow significantly. These sales increased by 11.4% in 2004-05. An increase in students served and convenience of the new state of the art point of sale cashiering system are contributing factors in this revenue growth.
- Food Service prices are adjusted periodically with the intent of "breaking even" in the Nutrition Fund. Food Service prices were adjusted in 2004-05. Student lunch prices at the elementary, junior high and high school levels were increased by \$0.10 for the 2004-05 school year.
- One consideration in the lunch price increases for the 2004-05 school year was the projected need to replace several Nutrition Fund capital assets that are nearing the end of their useful lives over the next few years.

Financial Analysis of the District's Funds

As previously noted, the Pleasant Valley Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As the district completed the year, its governmental funds reported combined fund balances of \$ 3,814,494. This was a decrease of \$ 560,547 from the previous year's combined fund balances. The main reason for the decrease in the combined fund balances was due to the fund balance in the Capital Projects Fund decreasing by \$ 994,963 to a balance of \$ 1,342,306 at June 30, 2005. This balance decreased significantly due to major expenditures out of this fund for the Bridgeview Elementary School and Pleasant Valley High School building addition projects. Another reason for the decrease in the combined fund balances was due to the fund balance in the Management Fund decreasing by \$ 242,984 to a balance of \$ 577,315 at June 30, 2005. A decrease in the Management Fund property tax levy rate, which reduced property tax revenue by \$ 129,850 in 2004-05, and a \$ 77,313 increase in the district's business protection insurance policy premiums were the main factors in the decrease of the

fund balance in the Management Fund. The district's fund balance in the General Fund increased during the year by \$ 36,869 ending the year with a fund balance of \$ 1,152,959. Rising expenses related to salaries and benefits settlements and inflation for supply costs, utilities costs, fuel costs, etc., continue to exert pressure on the fund balance in the General Fund. The fund balance in the Physical Plant and Equipment Levy (PPEL) Fund increased during the year by \$ 642,779. The fund balance in the Student Activities Fund decreased by \$ 2,248 during the fiscal year.

As mentioned previously, the district's business-type activities did well financially during the year. The fund balance in the Nutrition Fund increased during the year by \$ 81,633, ending the year with a fund balance of \$ 391,033.

Budgetary Highlights

A schedule showing the original and final budget amounts compared to the district's actual financial activity is included in the required supplementary information section of this report.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The district converted from the cash basis to the GAAP (Generally Accepted Accounting Principles) method of accounting for budgeting purposes in 2003-04. All other audited financial information was already being reported on the GAAP basis of accounting. Over the course of the year, the district amended its certified budget one time.

Pleasant Valley Community School District's normal practice is to amend the certified budget one time during each fiscal year. Iowa law requires that actual spending in each functional area of the budget does not exceed the amount budgeted to be spent in that functional area at any time during the fiscal year. The district's practice is to amend the budget each year prior to expenses going over budget in any of the functional areas. Due to the state mandated crossover of account numbers that were not finalized and communicated to districts until late in the 2004-05 fiscal year, disbursements in the support services function exceeded the amount budgeted. The district's practice is also to amend the budget to reflect all of the fund balances in each of the various budgeted funds being spent down to a zero balance at the end of the fiscal year. This is the most significant reason for the amended budget showing \$ 3,545,810 more in expenditures than the original certified budget for the 2004-05 fiscal year. The other main reasons for the differences between the original budget and the amended budget are:

- The budget is amended to reflect additional allowed expenditures due to receipt of grant money and other miscellaneous income during the year that was not possible to predict when the certified budget was adopted.

It should also be noted that school districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget", which includes all funds of the district as noted above. This budget is certified with the County Auditor and the Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the “unspent (maximum) authorized budget” and pertains only to the General Fund of the district. The maximum authorized budget is the total “spending authority” in the General Fund of the district. The unspent balance is a budgetary concept and does not mean the “actual General Fund cash”. It is imperative for users of district financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the district.

Capital Asset and Debt Administration

Capital Assets

By the end of the 2004-05 fiscal year, the district had invested \$ 22,815,644 (net of accumulated depreciation of \$ 22,199,509) in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Figure A-8). This amount represents a net increase of \$ 2,716,832 or 13.5% from last year. **(More detailed information about capital assets can be found in Note 5 to the financial statements).** Total depreciation expense for the year was \$ 1,250,548.

Figure A-8

Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total School District		Total Percent Change
	<u>@ 6-30-2004</u>	<u>@ 6-30-2005</u>	<u>@ 6-30-2004</u>	<u>@ 6-30-2005</u>	<u>@ 6-30-2004</u>	<u>@ 6-30-2005</u>	<u>2004-05</u>
Land	591,160	591,160	0	0	591,160	591,160	0.0%
Buildings	16,788,924	16,750,560	0	0	16,788,924	16,750,560	-0.2%
Improvements other than buildings	248,481	353,054	0	0	248,481	353,054	42.1%
Furniture and equipment	1,152,744	1,330,714	40,956	49,839	1,193,700	1,380,553	15.7%
Construction in progress	1,276,547	3,740,317	0	0	1,276,547	3,740,317	193.0%
Total	20,057,856	22,765,805	40,956	49,839	20,098,812	22,815,644	13.5%

As mentioned earlier in this report, construction continued during 2004-05 on a classroom addition at Bridgeview Elementary School and music and wellness addition at Pleasant Valley High School. Both of these projects were financed using Physical Plant and Equipment Levy (PPEL) funds and Local Option Sales and Services Tax for School Infrastructure funds.

Several other major “construction in progress” activities at June 30, 2005 include:

- Architectural work had begun prior to June 30, 2005 on an approximately 6,250 square foot addition and 3,000 square foot renovation at Cody Elementary School
- New district-wide IP telephone system
- Window replacement project at Pleasant View Elementary School

Long-Term Liabilities

At June 30, 2005, the district had \$ 209,359 in early retirement long-term liabilities with \$ 118,605 due within one year and \$ 922,544 in total compensated absence liabilities with \$ 209,342 in compensated absences due within one year.

At June 30, 2004, the district had \$ 199,574 in early retirement long term liabilities with \$ 169,868 due within one year and \$ 932,403 in total compensated absence liabilities with \$ 183,583 in compensated absences due within one year.

Payments of early retirement benefits come out of the district’s Management Fund. Payments of compensated absences come out of the district’s General Fund. More detailed information about the district’s long-term liabilities is available in Note 6 to the financial statements.

Factors Bearing on the District’s Future

At the time these financial statements were prepared and audited, the district was aware of several existing circumstances that could significantly affect its financial health in the future:

- A fund-raising campaign began in spring, 2004 with the goal of raising \$ 200,000 in donations from individuals and businesses to help with the purchase of equipment for the music and wellness additions at Pleasant Valley High School. The fund-raiser was titled the “Reaching for Excellence” campaign. At the end of the 2004-05 fiscal year, \$ 277,767 had been pledged and \$ 179,047 received on the Reaching for Excellence campaign. As of January 20, 2006, the fund-raiser had received \$ 277,867 in pledges and \$ 222,803 of those pledges had been received. Those who pledged were given the option of paying their pledges as a one-time gift or paying their pledge over two or three tax years. In addition to the fund-raiser, the district is paying \$100,000 in Physical Plant and Equipment Levy funds towards the purchase of equipment for these additions and the district has also received \$150,000 in grants from the Scott County Regional Authority for the purchase of equipment for the high school music and wellness additions. If those who have made pledges towards this project do not make full payment on their pledges, the district’s financial health would be negatively affected.
- Fiscal year 2005-06 settlements were reached during the 2004-05 fiscal year. The settlement for fiscal year 2005-06 marked the fourth year in a row that the district had settlements with one or more employee groups in which the total package increase exceeded the state allowable growth rate. The Iowa Legislature for each fiscal year sets an allowable growth rate. If a district has increasing enrollment, that district’s “new money” percentage will be larger than the state allowable growth percentage. It is financially prudent for a district to spend the difference between state allowable growth and it’s new money (if new money is greater than

state allowable growth) on costs related to dealing with those growth issues. The district has shown enrollment growth each of the last four years. Settlements with Pleasant Valley Education Association (non-administrative certified employees) exceeded state allowable growth **and** district new money from fiscal year 2002-03 to fiscal year 2004-05. For 2005-06, the settlement with Pleasant Valley Education Association was larger than state allowable growth, but less than district new money. State allowable growth for 2005-06 was 4.00% and the settlement with Pleasant Valley Education Association was 4.47%. District new money for 2005-06 was 5.34%. All other employee groups total package increases have exceeded state allowable growth also in 2002-03, 2003-04 and 2004-05. For 2005-06, the total package increase for all non-teaching staff was equal to the state allowable growth percentage of 4.0% and less than district new money of 5.34%. Employee salaries and benefits make up approximately 80% of General Fund expenditures. Salary and benefit settlements, with any employee group, exceeding the state allowable growth rate will have an adverse impact upon the district's General Fund budget.

- Due to changes made to Iowa Code by the 2003 Iowa Legislature, the state replacement funds for machinery and equipment, which were originally scheduled to be paid through the 2005-06 fiscal year, were now only paid through the 2003-04 fiscal year. In addition, the state only paid 34% of the calculated amount due to districts for the 2003-04 fiscal year. As a result of these changes, this revenue, which was being provided by the state, must now be paid by local property taxpayers. This will exert great pressure on the district's ability to maintain a level property tax levy rate in future years.
- The Bridgeview Elementary School construction project was completed and final payment to the contractor was made on October 5, 2005. Final costs on the project were \$ 984,769.
- The Pleasant Valley High School music and wellness addition project was completed and final payment to the contractor was made on October 17, 2005. Final costs on the project were \$ 2,626,262.
- Construction began on a building addition and renovation project at Cody Elementary School in August, 2005. As of January 20, 2006, the projected total cost of the Cody Elementary School building addition and renovation project was \$ 1,032,000. This project is being funded with proceeds from the Physical Plant and Equipment Levy (PPEL) and Local Option Sales and Services Tax for School Infrastructure funds. The district has applied to the Iowa Department of Education for a Harkin Iowa Demonstration Construction Program grant to help offset the costs of the project. Grant awards are to be announced on or before March 17, 2006. Receipt of this grant would have a significant affect on the financial health of the district.
- An agreement was dated on June 30, 2005 for First Student, Inc., a private independent transportation company, to provide student transportation services to the district effective July 1, 2005. The agreement is for a three-year period with the option to renew for an additional three-year period. Pricing is guaranteed for the entire six-year period. The district's bus fleet was sold to First Student, Inc. in July, 2005 for \$ 667,430.
- The district purchased an early reading software package called Waterford in June, 2005. The software is initially being used in kindergarten through second grade. The product is being financed through a three-year lease-purchase agreement. The company that sold the product to

the district (Pearson Digital Learning) reduced the price of the product to cover the interest charges on the lease-purchase agreement. The district will pay a total of \$343,632 over the three-year lease-purchase agreement period. The district has applied for grants to help cover the cost of this software. As of January 20, 2006, the district had received one grant from the Scott County Regional Authority for \$ 42,866 to help offset the costs of the purchase. The district will be applying for additional grants in hopes of offsetting the cost of the software. Any additional grants that the district is able to receive would significantly affect the financial health of the district.

- The district has begun participation in a Medicaid Direct Services Reimbursement program during the 2005-06 fiscal year. This allows the district to bill Medicaid for health related services provided to Medicaid eligible students. Moneys received from this program will help to offset the district's special education deficit.
- The district is not levying taxpayers for the board-approved Physical Plant and Equipment Levy (PPEL) in the 2005-06 fiscal year. District's have the authority to levy up to \$ 0.33 per \$ 1,000 taxable valuation for the board approved PPEL. Not levying the board-approved PPEL will bring in approximately \$ 269,000 less in PPEL property tax revenue than would be brought in if the board did levy for the board-approved PPEL. In addition, the district's voter-approved PPEL levy is due to expire at the end of the 2007-08 fiscal year, unless voters renew it. The voter-approved PPEL levy is \$ 1.34 per \$ 1,000 taxable valuation and brings in approximately \$ 1,094,000 in revenue each year. Continuation of not levying for the board-approved PPEL and/or non-renewal of the voter-approved PPEL would have a significant negative impact on the financial health of the district. The PPEL Fund is used to pay for items such as building construction, renovation and repairs, significant equipment purchases and leases, technology related purchases, etc.
- The ten-year local option sales and services tax for school infrastructure will expire at the end of the 2008-09 fiscal year. During the 2003 Iowa legislative session, lawmakers voted to approve a statewide local option sales tax pool. The statewide average local option sales tax per pupil is \$ 575. At the current time, the Scott County per pupil amount is \$ 824. The district will continue to receive the taxes generated by Scott County until the ten-year period expires. At that time, the district will receive only the statewide average set by the legislature if the tax is renewed. Ninety-seven of the Ninety-nine counties in Iowa currently have approved and implemented the local option sales and services tax for school infrastructure. There are discussions around the state of making the tax an automatic statewide tax. If this is done, a vote would not be necessary to renew the tax. Placement of our district into the statewide pool would lower revenue, which would have a negative impact on the financial health of the district. Non-renewal of the local option sales and services tax for school infrastructure (if it does not become state-wide) would have an even more significantly negative impact on the financial health of the district as all revenue from this tax would be gone, rather than just receiving a lower amount of revenue.
- The Federal government has mandated that each school district in the nation adopt a school wellness policy. Over the past year, representatives from each of the school districts in Scott County have met to research policy requirements, explore policies from other states, and develop a uniform school wellness policy for Scott County. There could be a financial impact as guidelines are established for the appropriateness of items to be sold to students as part of the ala carte menu and also for items that students typically sell during fund raising activities.

- There has been discussion by the Iowa Legislature of increasing the employer and/or employee contribution percentages for the Iowa Public Employees Retirement System (IPERS). Any increase in the employers' share of IPERS could negatively impact the budget.

Contacting the District's Financial Management

This financial report is designed to provide the district's citizens, taxpayers, customers, and investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mike Clingingsmith, Chief Financial Officer, Pleasant Valley Community School District, P.O. Box 332, Pleasant Valley, IA 52767-0332.

Basic Financial Statements

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 7,468,634	\$ 416,220	\$ 7,884,854
Receivables:			
Property tax:			
Current year	55,391	-	55,391
Succeeding year	9,554,000	-	9,554,000
Accounts	411,273	2,260	413,533
Due from other governments	980,534	-	980,534
Inventories	-	8,508	8,508
Prepaid expenses	2,745		2,745
Capital assets, net of accumulated depreciation (note 5)	22,765,805	49,839	22,815,644
Total assets	41,238,382	476,827	41,715,209
Liabilities			
Accounts payable	521,766	25,403	547,169
Salaries and benefits payable	2,358,673	40,672	2,399,345
Due to other governments	288,264	-	288,264
Incurred but not reported claims (note 8)	276,731	-	276,731
Deferred revenue:			
Succeeding year property tax	9,554,000	-	9,554,000
Other	225,516	19,719	245,235
Long-term liabilities (note 6):			
Portion due within one year:			
Early retirement	118,605	-	118,605
Compensated absences	209,342	-	209,342
Portion due after one year:			
Early retirement	90,754	-	90,754
Compensated absences	713,202	-	713,202
Total liabilities	14,356,853	85,794	14,442,647

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 22,765,805	\$ 49,839	\$ 22,815,644
Restricted for:			
Management levy	367,956	-	367,956
Physical plant and equipment levy	352,953	-	352,953
Other special revenue purposes	388,961	-	388,961
Capital projects	1,342,306	-	1,342,306
Unrestricted, designated for future catastrophic losses	1,408,419	-	1,408,419
Unrestricted	255,129	341,194	596,323
Total net assets	\$ <u>26,881,529</u>	\$ <u>391,033</u>	\$ <u>27,272,562</u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	\$ 11,150,301	\$ 1,216,197	\$ 622,152	\$ -
Special instruction	2,652,052	450,626	388,814	-
Other instruction	2,260,245	924,344	-	-
	<u>16,062,598</u>	<u>2,591,167</u>	<u>1,010,966</u>	<u>-</u>
Support services:				
Student services	834,507	-	-	-
Instructional staff services	1,404,326	-	265,916	-
Administration services	2,139,647	-	-	-
Operation and maintenance of plant services	1,976,288	17,382	-	-
Transportation services	873,944	-	37,819	-
	<u>7,228,712</u>	<u>17,382</u>	<u>303,735</u>	<u>-</u>
Non-instructional programs	<u>34,014</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	415,418	-	-	349,313
AEA flowthrough	871,361	-	871,361	-
Depreciation (unallocated) *	850,621	-	-	-
	<u>2,137,400</u>	<u>-</u>	<u>871,361</u>	<u>349,313</u>
Total governmental activities	25,462,724	2,608,549	2,186,062	349,313
Business-Type Activities:				
Non-instructional programs:				
Food service operations	<u>998,209</u>	<u>852,143</u>	<u>219,331</u>	<u>-</u>
Total	\$ 26,460,933	\$ 3,460,692	\$ 2,405,393	\$ 349,313

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (9,311,952)	\$ -	\$ (9,311,952)
(1,812,612)	-	(1,812,612)
(1,335,901)	-	(1,335,901)
<u>(12,460,465)</u>	<u>-</u>	<u>(12,460,465)</u>
(834,507)	-	(834,507)
(1,138,410)	-	(1,138,410)
(2,139,647)	-	(2,139,647)
(1,958,906)	-	(1,958,906)
(836,125)	-	(836,125)
<u>(6,907,595)</u>	<u>-</u>	<u>(6,907,595)</u>
<u>(34,014)</u>	<u>-</u>	<u>(34,014)</u>
(66,105)	-	(66,105)
-	-	-
(850,621)	-	(850,621)
<u>(916,726)</u>	<u>-</u>	<u>(916,726)</u>
(20,318,800)	-	(20,318,800)
<u>-</u>	<u>73,265</u>	<u>73,265</u>
<u>(20,318,800)</u>	<u>73,265</u>	<u>(20,245,535)</u>

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Capital outlay

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

* = This amount excludes the depreciation that is included
in the direct expense of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ 8,702,210	\$ -	\$ 8,702,210
1,312,316	-	1,312,316
2,547,333	-	2,547,333
10,263,066	-	10,263,066
122,601	8,368	130,969
73,478	-	73,478
23,021,004	8,368	23,029,372
2,702,204	81,633	2,783,837
24,179,325	309,400	24,488,725
<u>\$ 26,881,529</u>	<u>\$ 391,033</u>	<u>\$ 27,272,562</u>

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and pooled investments	\$ 3,898,453	\$ 529,602	\$ 2,097,005	\$ 6,525,060
Receivables:				
Property tax:				
Current year	46,770	7,416	1,205	55,391
Succeeding year	8,219,000	990,000	345,000	9,554,000
Interfund receivable (note 3)	-	-	31	31
Accounts	55,060	5,804	3,637	64,501
Due from other governments	591,280	-	389,254	980,534
Prepaid expenses	2,745	-	-	2,745
Total assets	\$ <u>12,813,308</u>	\$ <u>1,532,822</u>	\$ <u>2,836,132</u>	\$ <u>17,182,262</u>

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances				
Liabilities:				
Excess of warrants issued over bank balance	\$ 407,080	\$ -	\$ -	\$ 407,080
Accounts payable	245,711	189,869	73,910	509,490
Salaries and benefits payable	2,358,673	-	-	2,358,673
Due to other governments	288,264	-	-	288,264
Interfund payable (note 3)	31	-	-	31
Deferred revenue:				
Succeeding year property tax	8,219,000	990,000	345,000	9,554,000
Other	141,590	-	108,640	250,230
Total liabilities	<u>11,660,349</u>	<u>1,179,869</u>	<u>527,550</u>	<u>13,367,768</u>
Fund balance:				
Reserved for:				
Prepaid expenses	2,745	-	-	2,745
Unreserved:				
Reported in nonmajor Special Revenue Funds	-	-	966,276	966,276
Undesignated	1,150,214	352,953	1,342,306	2,845,473
Total fund balances	<u>1,152,959</u>	<u>352,953</u>	<u>2,308,582</u>	<u>3,814,494</u>
Total liabilities and fund balances	<u>\$ 12,813,308</u>	<u>\$ 1,532,822</u>	<u>\$ 2,836,132</u>	<u>\$ 17,182,262</u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2005

Total fund balances of governmental funds	\$ 3,814,494
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	22,765,805
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	24,714
Long-term liabilities, including early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(1,131,903)
The Internal Service Fund is used to charge the cost of the District's self-funded insurance plan to the governmental funds. The net assets of the Internal Revenue Service Fund are therefore included under governmental activities.	<u>1,408,419</u>
Net assets of governmental activities	<u><u>\$ 26,881,529</u></u>
See notes to financial statements.	

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 8,477,520	\$ 1,311,402	\$ 2,765,781	\$ 12,554,703
Tuition	1,399,116	-	-	1,399,116
Other	538,382	403,076	945,458	1,886,916
State sources	11,959,797	914	157	11,960,868
Federal sources	338,066	-	-	338,066
Total revenues	22,712,881	1,715,392	3,711,396	28,139,669
Expenditures:				
Current:				
Instruction:				
Regular instruction	11,129,973	275,222	224,341	11,629,536
Special instruction	2,744,496	-	-	2,744,496
Other instruction	1,334,597	-	925,648	2,260,245
	15,209,066	275,222	1,149,989	16,634,277
Support services:				
Student services	828,973	-	5,534	834,507
Instructional staff services	1,082,640	315,771	5,915	1,404,326
Administration services	2,093,786	39,338	50,718	2,183,842
Operation and maintenance of plant services	1,782,230	54,059	154,973	1,991,262
Transportation services	777,475	141,431	32,247	951,153
	6,565,104	550,599	249,387	7,365,090
Non-instructional programs	31,026	-	2,988	34,014
Other expenditures:				
Facilities acquisition	-	3,746,792	49,227	3,796,019
AEA flowthrough	871,361	-	-	871,361
	871,361	3,746,792	49,227	4,667,380
Total expenditures	22,676,557	4,572,613	1,451,591	28,700,761
Excess (deficiency) of revenues over (under) expenditures	36,324	(2,857,221)	2,259,805	(561,092)

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
Other financing sources (uses):				
Sale of equipment	\$ 545	\$ -	\$ -	\$ 545
Interfund transfers in (note 4)	-	3,500,000	-	3,500,000
Interfund transfers out (note 4)	-	-	(3,500,000)	(3,500,000)
Total other financing sources (uses)	<u>545</u>	<u>3,500,000</u>	<u>(3,500,000)</u>	<u>545</u>
Net change in fund balances	36,869	642,779	(1,240,195)	(560,547)
Fund balances beginning of year	<u>1,116,090</u>	<u>(289,826)</u>	<u>3,548,777</u>	<u>4,375,041</u>
Fund balances end of year	<u>\$ 1,152,959</u>	<u>\$ 352,953</u>	<u>\$ 2,308,582</u>	<u>\$ 3,814,494</u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ (560,547)

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 3,949,113	
Depreciation expense	<u>(1,241,164)</u>	2,707,949

Certain grant income not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the statement of activities. 24,714

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 74

The increase in net assets of the Internal Service Fund represents an overcharge to governmental funds and is incorporated into the change in net assets of governmental activities. 530,014

Change in net assets of governmental activities \$ 2,702,204

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2005

	Non-major Enterprise Fund	Internal Service Fund
	<u>Fund</u>	<u>Fund</u>
Assets		
Cash and cash equivalents	\$ 416,220	\$ 1,350,654
Accounts receivable	2,260	346,772
Inventories	8,508	-
Capital assets, net of accumulated depreciation	49,839	-
Total assets	<u>476,827</u>	<u>1,697,426</u>
Liabilities		
Accounts payable	25,403	12,276
Salaries and benefits payable	40,672	-
Incurred but not reported claims (note 8)	-	276,731
Deferred revenue:		
Other	19,719	-
Total liabilities	<u>85,794</u>	<u>289,007</u>
Net Assets		
Invested in capital assets, net of related debt	49,839	-
Unrestricted	<u>341,194</u>	<u>1,408,419</u>
Total net assets	<u>\$ 391,033</u>	<u>\$ 1,408,419</u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Non-major Enterprise Fund	Internal Service Fund
	<u>Fund</u>	<u>Fund</u>
Operating revenues:		
Local sources:		
Charges for services	\$ 852,143	\$ 2,829,948
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	302,569	-
Benefits	53,353	2,316,160
Purchased services	5,065	-
Supplies	625,263	-
Small equipment	2,575	-
Depreciation	9,384	-
	<u>998,209</u>	<u>2,316,160</u>
Operating income (loss)	<u>(146,066)</u>	<u>513,788</u>
Non-operating revenues:		
Interest on investments	8,368	16,226
State sources	10,991	-
Federal sources	208,340	-
Total non-operating revenues	<u>227,699</u>	<u>16,226</u>
Change in net assets	81,633	530,014
Net assets beginning of year	<u>309,400</u>	<u>878,405</u>
Net assets end of year	<u>\$ 391,033</u>	<u>\$ 1,408,419</u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Non-major Enterprise Fund	Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 834,484	\$ -
Cash received from miscellaneous operating activities	20,454	2,483,176
Cash payments to employees for services	(355,814)	-
Cash payments to suppliers for goods or services	<u>(561,591)</u>	<u>(2,287,669)</u>
Net cash provided by (used in) operating activities	<u>(62,467)</u>	<u>195,507</u>
Cash flows from non-capital financing activities:		
State grants received	10,991	-
Federal grants received	<u>163,934</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>174,925</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(18,267)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>8,368</u>	<u>16,226</u>
Net increase in cash and cash equivalents	102,559	211,733
Cash and cash equivalents beginning of year	<u>313,661</u>	<u>1,138,921</u>
Cash and cash equivalents end of year	<u>\$ 416,220</u>	<u>\$ 1,350,654</u>

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Non-major Enterprise Fund	Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (146,066)	\$ 513,788
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	9,384	-
Commodities used	44,406	-
(Increase) decrease in accounts receivable	799	(346,772)
Decrease in inventories	2,389	-
Increase in accounts payable	24,517	4,747
Increase in salaries and benefits payable	108	-
Increase in deferred revenues	1,996	-
Increase in incurred but not reported claims	-	23,744
Net cash provided by (used in) operating activities	\$ <u>(62,467)</u>	\$ <u>195,507</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$44,406 of federal commodities.

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2005

	Private Purpose Trust	Scholarship
Assets:		
Cash and pooled investments	\$ 10,318	
Liabilities:		
None	-	
Net assets:		
Reserved for scholarships	\$ 10,318	
See notes to financial statements.		

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2005

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ <u>285</u>
Deductions:	
Support services:	
Scholarships awarded	<u>2,423</u>
Change in net assets	(2,138)
Net assets beginning of year	<u>12,456</u>
Net assets end of year	\$ <u><u>10,318</u></u>

See notes to financial statements.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

Pleasant Valley Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Township of Pleasant Valley, Iowa, the City of Le Claire, Iowa, portions of the City of Bettendorf, Iowa, and portions of the rural territory in Scott County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pleasant Valley Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. Pleasant Valley Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Scott County Assessor's Conference Board.

B. Basis of Presentation

District-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the main operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Special Revenue Fund, Physical Plant and Equipment Levy, is utilized to account for payment of capital and related expenditures for building improvements and certain types of equipment.

The District's proprietary funds are the Enterprise, School Nutrition Fund, used to account for the food service operations of the District, and the Internal Service Fund, Self-funded Insurance, used to account for the District's self-funded health and dental insurance plan.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1
Buildings	25,000
Improvements other than buildings	25,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	20-40 years
Improvements other than buildings	15-40 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable – Payroll and related expenses for teachers and other employees with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, unearned registration fees, and unearned meal revenues.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave benefits payable to employees. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue Fund, Management Levy.

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the support services functional area exceeded the amount budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 2. Cash and Pooled Investments (continued)

Interest rate risk – The District’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Note 3. Interfund Receivable/Payable

A summary of interfund receivables and payables due to transactions between funds is as follows:

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
Special Revenue:		
Student Activity	General	\$ <u>31</u>

Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Physical Plant and Equipment Levy	Capital Projects	\$ <u>3,500,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 591,160	\$ -	\$ -	\$ 591,160
Construction in progress	1,276,547	2,945,399	481,629	3,740,317
Total capital assets not being depreciated	1,867,707	2,945,399	481,629	4,331,477
Capital assets being depreciated:				
Buildings	30,086,659	767,230	-	30,853,889
Improvements other than buildings	1,303,913	149,601	3,523	1,449,991
Furniture and equipment	7,840,793	568,512	472,957	7,936,348
Total capital assets being depreciated	39,231,365	1,485,343	476,480	40,240,228
Less accumulated depreciation for:				
Buildings	13,297,735	805,594	-	14,103,329
Improvements other than buildings	1,055,432	45,028	3,523	1,096,937
Furniture and equipment	6,688,049	390,542	472,957	6,605,634
Total accumulated depreciation	21,041,216	1,241,164	476,480	21,805,900
Total capital assets being depreciated, net	18,190,149	244,179	-	18,434,328
Governmental activities capital assets, net	\$ 20,057,856	\$ 3,189,578	\$ 481,629	\$ 22,765,805

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 425,181	\$ 18,267	\$ -	\$ 443,448
Less accumulated depreciation	384,225	9,384	-	393,609
Business-type activities capital assets, net	<u>\$ 40,956</u>	<u>\$ 8,883</u>	<u>\$ -</u>	<u>\$ 49,839</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:

 Instruction:

 Regular

\$ 168,194

 Support services:

 Administration

31,584

 Operation and maintenance of plant services

28,798

 Transportation

161,967

390,543

Unallocated depreciation

850,621

Total governmental activities depreciation expense

\$ 1,241,164

Business-type activities:

 Food service operations

\$ 9,384

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Early Retirement	Compensated Absences	Total
Balance beginning of year	\$ 199,574	\$ 932,403	\$ 1,131,977
Additions	181,507	273,988	455,495
Reductions	171,722	283,847	455,569
Balance end of year	<u>\$ 209,359</u>	<u>\$ 922,544</u>	<u>\$ 1,131,903</u>
Due within one year	<u>\$ 118,605</u>	<u>\$ 209,342</u>	<u>\$ 327,947</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified, administrative, and classified employees.

Eligible employees must be at least age fifty-five and employees must have completed fifteen years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. For administrators and certified personnel, the early retirement incentive for each eligible employee is equal to 50% of employee's base salary calculated by using the current year regular salary schedule. For classified personnel, the early retirement incentive for each eligible employee is the product of 50% of the number of unused sick leave days (limited to a maximum number of days in the employee's letter of assignment) times the employee's hourly wage rate on the last day of employment times the daily hours worked. Early retirement benefits paid during the year ended June 30, 2005, totaled \$171,722. Early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

Note 7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$827,356, \$786,424, and \$767,789 respectively, equal to the required contributions for each year.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 8. Risk Management

The District has a self-funded health and dental insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of \$50,000 in insured claims for any one covered individual. Settled claims have not exceeded the aggregate stop loss coverage for the past three fiscal years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for incurred but unpaid claims. The reserve was \$1,408,419 at June 30, 2005 and is recorded in the Internal Service Fund. The incurred but not reported claims of \$276,731 are reported as liabilities at June 30, 2005.

Pleasant Valley Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$871,361 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

Note 10. Construction Commitments

The District entered into various contracts totaling \$1,726,564 for various projects. The District also had carryover construction contracts from the prior year totaling \$3,174,232, including change orders. At June 30, 2005, \$3,011,055 of the contracts were completed and paid, \$36,142 was recorded in accounts payable, and the remaining amounts of the contracts will be paid as work on the projects progresses.

Note 11. Subsequent Events

During the year ended June 30, 2005, the District entered into an agreement with an independent transportation company for student transportation services. The agreement was signed in June, 2005 for a minimum 3-year period beginning July 1, 2005. Estimated busing costs under the agreement will be \$818,178, \$846,814, and \$872,219 for the fiscal years ending June 30, 2006, 2007, and 2008, respectively. In July 2005, the District sold the District's bus fleet to the transportation company for \$667,430.

In August, 2005, the District approved contracts totaling \$1,627,000 for an addition to and renovations of an elementary school building. The costs for this project will be paid with the District's local option sales and services tax revenues.

Required Supplementary Information

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances –
Budget and Actual – All Governmental Funds
and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2005

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
REVENUES:						
Local sources	\$ 15,840,735	\$ 860,511	\$ 16,701,246	\$ 15,709,246	\$ 15,709,246	\$ 992,000
State sources	11,960,868	10,991	11,971,859	11,343,144	11,343,144	628,715
Federal sources	338,066	208,340	546,406	476,970	476,970	69,436
Total revenues	28,139,669	1,079,842	29,219,511	27,529,360	27,529,360	1,690,151
EXPENDITURES/EXPENSES:						
Instruction	16,634,277	-	16,634,277	17,068,636	18,796,654	2,162,377
Support services	7,365,090	-	7,365,090	6,449,541	7,052,030	(313,060)
Non-instructional programs	34,014	998,209	1,032,223	897,682	1,245,380	213,157
Other expenditures	4,667,380	-	4,667,380	5,360,003	6,227,608	1,560,228
Total expenditures/expenses	28,700,761	998,209	29,698,970	29,775,862	33,321,672	3,622,702
Excess (deficiency) of revenues over (under) expenditures/ expenses	(561,092)	81,633	(479,459)	(2,246,502)	(5,792,312)	5,312,853
Other financing sources, net	545	-	545	-	-	545
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses	(560,547)	81,633	(478,914)	(2,246,502)	(5,792,312)	5,313,398
Balance beginning of year	4,375,041	309,400	4,684,441	7,074,980	7,074,980	(2,390,539)
Balance end of year	\$ 3,814,494	\$ 391,033	\$ 4,205,527	\$ 4,828,478	\$ 1,282,668	\$ 2,922,859

See accompanying independent auditor's report.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis. Encumbrances are not recognized on the accrual basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$3,545,810.

During the year ended June 30, 2005, disbursements in the support services function exceeded the amount budgeted.

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Other Supplementary Information

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	Special Revenue			
	Management Levy	Student Activity	Capital Projects	Total
Assets				
Cash and pooled investments	\$ 572,473	\$ 522,253	\$ 1,002,279	\$ 2,097,005
Receivables:				
Property tax:				
Current year	1,205	-	-	1,205
Succeeding year	345,000	-	-	345,000
Interfund receivable	-	31	-	31
Accounts	3,637	-	-	3,637
Due from other governments	-	-	389,254	389,254
Total assets	<u>\$ 922,315</u>	<u>\$ 522,284</u>	<u>\$ 1,391,533</u>	<u>\$ 2,836,132</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	\$ 24,683	\$ 49,227	\$ 73,910
Deferred revenue:				
Succeeding year property tax	345,000	-	-	345,000
Other	-	108,640	-	108,640
Total liabilities	<u>345,000</u>	<u>133,323</u>	<u>49,227</u>	<u>527,550</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>577,315</u>	<u>388,961</u>	<u>1,342,306</u>	<u>2,308,582</u>
Total liabilities and fund equity	<u>\$ 922,315</u>	<u>\$ 522,284</u>	<u>\$ 1,391,533</u>	<u>\$ 2,836,132</u>

See accompanying independent auditor's report.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2005

	Special Revenue		Capital	
	Management	Student	Projects	Total
	Levy	Activity		
Revenues:				
Local sources:				
Local tax	\$ 218,448	\$ -	\$ 2,547,333	\$ 2,765,781
Other	15,127	923,400	6,931	945,458
State sources	157	-	-	157
Total revenues	<u>233,732</u>	<u>923,400</u>	<u>2,554,264</u>	<u>3,711,396</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	224,341	-	-	224,341
Other instruction	-	925,648	-	925,648
Support services:				
Student services	5,534	-	-	5,534
Instructional staff services	5,915	-	-	5,915
Administration services	50,718	-	-	50,718
Operation and maintenance of plant services	154,973	-	-	154,973
Transportation services	32,247	-	-	32,247
Non instructional programs	2,988	-	-	2,988
Other expenditures:				
Facilities acquisition	-	-	49,227	49,227
Total expenditures	<u>476,716</u>	<u>925,648</u>	<u>49,227</u>	<u>1,451,591</u>
Excess (deficiency) of revenues over (under) expenditures	(242,984)	(2,248)	2,505,037	2,259,805
Other financing uses:				
Interfund transfers out	-	-	(3,500,000)	(3,500,000)
Deficiency of revenues under expenditures and other financing uses	(242,984)	(2,248)	(994,963)	(1,240,195)
Fund balances beginning of year	<u>820,299</u>	<u>391,209</u>	<u>2,337,269</u>	<u>3,548,777</u>
Fund balances end of year	<u>\$ 577,315</u>	<u>\$ 388,961</u>	<u>\$ 1,342,306</u>	<u>\$ 2,308,582</u>

See accompanying independent auditor's report.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Elementary & Junior High Activities:				
P.V. J.H. Art	\$ (57)	\$ 1,644	\$ 932	\$ 655
P.V. J.H. Athletics	2,982	2,675	2,947	2,710
P.V. J.H. Band	463	503	563	403
P.V. J.H. Vocal Music	361	1,305	32	1,634
Junior High Library	559	574	304	829
Boundry Waters	-	7,000	7,000	-
Junior High Drama	2,383	2,615	2,254	2,744
P.V. J.H. Chorus	2,077	4,615	5,438	1,254
P.V. J.H. General Activities	5,179	18,340	14,549	8,970
Junior High PTA	1,504	4,159	4,452	1,211
P.V. J.H. Home Economics	298	2,463	828	1,933
P.V. J.H. Industrial Arts	3,514	5,632	7,629	1,517
P.V. J.H. Quest Program	1,327	525	119	1,733
P.V. J.H. Science	4,233	12	1,421	2,824
P.V. J.H. Special Olympics	197	-	-	197
P.V. J.H. Student Council	935	1,286	-	2,221
P.V. J.H. Yearbook	325	7,282	4,634	2,973
Bridgeview General Activities	7,081	19,054	15,520	10,615
Bridgeview Home Economics	873	-	873	-
Bridgeview Quest	(51)	-	(51)	-
Bridgeview PTA	(8,409)	13,204	5,369	(574)
Bridgeview Technology Walk	13	-	13	-
Bridgeview Vocal Music	8	-	8	-
Cody Band	74	64	64	74
Cody Book Club	91	141	226	6
Cody Bookstore	370	187	292	265
Cody Candy Sales	2,763	2,106	1,911	2,958
Cody General Activities	13,101	6,232	5,020	14,313
Cody PTA	7,145	6,173	11,094	2,224
Cody Jump for Heart	70	-	70	-
Cody Technology Walk	113	199	312	-
Cody Student Fund	1,052	62	290	824
Cody Vocal Music	148	431	523	56
Cody Writing Center	97	-	97	-
Cody Yearbook	1,636	1,218	1,022	1,832
Cody Student Council	37	-	37	-
Cody Science	40	-	40	-
Pleasant View Bookstore	1,411	-	-	1,411
Pleasant View General Activities	18,275	14,636	13,515	19,396
Pleasant View PTA	1,001	12,085	17,885	(4,799)

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Elementary & Junior High Activities (continued):				
Pleasant View Band	\$ 117	\$ -	\$ -	117
Riverdale Book Club	912	928	14	1,826
Riverdale Jump for Heart	42	-	-	42
Riverdale General Activities	10,501	16,571	16,403	10,669
Riverdale PTA	10,704	5	5,045	5,664
Riverdale Student Council	1,852	-	111	1,741
Riverdale Science	1,873	3,015	2,018	2,870
Riverdale Band	2,372	-	-	2,372
Riverdale Vocal Music	129	-	-	129
District-Wide Garage Sale	1,465	-	-	1,465
District-Wide Wellness	-	1,370	1,151	219
Interest	17,175	2,139	40	19,274
High School Activities:				
General Administrative	14,942	115,537	121,908	8,571
Book Club	89	2,515	1,943	661
Clubs and Organizations	14,943	39,395	40,804	13,534
Drama	12,269	66,151	67,842	10,578
Student Phone	84	715	556	243
High School Athletics	55,018	143,236	123,453	74,801
Pre-School	2,856	1,151	1,966	2,041
Library/Media Activities	7,051	4,520	6,594	4,977
Music Clubs	19,412	31,201	25,788	24,825
Other Miscellaneous	1,579	3,011	(5,769)	10,359
Publications	34,088	43,893	60,137	17,844
Academic Resale	20,833	40,470	43,365	17,938
Athletic Support Groups	59,598	265,169	279,487	45,280
Interest	27,008	1,116	-	28,124
PV Spirit Gear	1,078	4,870	5,560	388
Total	\$ 391,209	\$ 923,400	\$ 925,648	\$ 388,961

See accompanying independent auditor's report.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 12,554,703	\$ 12,514,026	\$ 13,141,740	\$ 12,953,185
Tuition	1,399,116	1,230,012	1,062,284	1,047,765
Other	1,886,916	1,645,656	1,391,123	1,819,445
Intermediate sources	-	5,362	-	-
State sources	11,960,868	10,420,014	10,400,645	10,072,489
Federal sources	338,066	397,878	363,682	224,899
Total revenues	<u>\$ 28,139,669</u>	<u>\$ 26,212,948</u>	<u>\$ 26,359,474</u>	<u>\$ 26,117,783</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 11,629,536	\$ 11,442,672	\$ 11,286,209	\$ 10,197,947
Special instruction	2,744,496	3,195,175	2,803,988	2,672,191
Other instruction	2,260,245	1,873,470	1,616,000	1,773,216
Support services:				
Student services	834,507	704,749	683,297	560,963
Instructional staff services	1,404,326	688,197	602,646	506,500
Administration services	2,183,842	2,008,349	2,093,533	2,059,398
Operation and maintenance of plant services	1,991,262	1,690,047	1,652,511	1,553,297
Transportation services	951,153	905,464	880,229	695,001
Central and other support services	-	5,220	5,220	-
Non-instructional programs	34,014	31,111	-	1,303
Other expenditures:				
Facilities acquisition	3,796,019	2,320,548	2,839,573	1,826,489
Long-term debt:				
Principal	-	-	5,500,000	1,060,000
Interest and fiscal charges	-	-	309,628	359,660
AEA flowthrough	871,361	849,410	887,314	869,348
Total expenditures	<u>\$ 28,700,761</u>	<u>\$ 25,714,412</u>	<u>\$ 31,160,148</u>	<u>\$ 24,135,313</u>

See accompanying independent auditor's report.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Grantor / Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 05	\$ <u>44,406</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 05	15,583
National School Lunch Program	10.555	FY 05	<u>148,351</u>
			<u>163,934</u>
			<u>208,340</u>
U. S. Department of Education:			
Iowa Department of Education:			
Title 1 Grants to Local Educational Agencies	84.010	5250-G-05	<u>78,291</u>
Improving Teacher Quality State Grants	84.367	FY 05	<u>70,025</u>
State Grants for Innovative Programs	84.298	FY 04	2,960
State Grants for Innovative Programs	84.298	FY 05	<u>11,386</u>
			<u>14,346</u>
Grants for Assessments and Related Activities	84.369	FY 05	<u>6,936</u>
Vocational Education - Basic Grants to States	84.048	FY 05	<u>5,545</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 05	<u>8,663</u>
Mississippi Bend Area Education Agency:			
Special Education - Grants to States	84.027	FY 05	<u>146,816</u>
Safe and Drug Free Schools and Communities - National Programs	84.184	FY 05	<u>2,049</u>
			<u>332,671</u>

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

<u>Grantor / Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect (continued):			
Corporation for National and Community Service:			
Iowa Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	FY 05	\$ <u>2,491</u>
Total			\$ <u><u>543,502</u></u>

Basis of Presentation –

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Pleasant Valley Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Pleasant Valley Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Pleasant Valley Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 14, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pleasant Valley Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no material weaknesses during the course of our audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pleasant Valley Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Pleasant Valley Community School District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pleasant Valley Community School District and other parties to whom Pleasant Valley Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pleasant Valley Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
September 14, 2005

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Board of Education of
Pleasant Valley Community School District:

Compliance

We have audited the compliance of Pleasant Valley Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Pleasant Valley Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Pleasant Valley Community School District's management. Our responsibility is to express an opinion on Pleasant Valley Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pleasant Valley Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pleasant Valley Community School District's compliance with those requirements.

In our opinion, Pleasant Valley Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Pleasant Valley Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Pleasant Valley Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Pleasant Valley Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no material weaknesses during the course of our audit.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pleasant Valley Community School District and other parties to whom Pleasant Valley Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Oskaloosa, Iowa
September 14, 2005

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Pleasant Valley Community School District qualified as a low-risk auditee.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part II: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

II-A-05 Activity Fund Accounts – We noted that the District uses an account within the Special Revenue Fund, Student Activity Fund as a clearing account whereby the revenues from registration fees are first recorded in the Activity Fund, then transferred to the District's General Fund.

Recommendation – The Student Activity Fund should be used only to account for revenues and expenditures associated directly with the extra-curricular activities of student athletics and clubs. All fees and charges for instructional purposes should be recorded in the General Fund in the future.

Response – All instructional fees will be properly included in the General Fund in the future. This has been corrected for the 2006 fiscal year.

Conclusion – Response accepted.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

No matters were reported.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget – Disbursements for the year ended June 30, 2005, exceeded the amount budgeted in the support services function.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – This was due to the State mandated crossover of all account numbers used by the District. Some accounts formerly included under the instruction function were moved to the support services function and we were unable to amend the budget in time to allow for this change. This will not happen again in the future.

Conclusion – Response accepted.

IV-C-05 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-05 Business Transactions – No business transactions between the District and District officials or employees were noted.

IV-F-05 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-05 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

IV-H-05 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

IV-I-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-05 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

PLEASANT VALLEY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-K-05 National School Lunch Program – We noted in our testing of the District’s National School Lunch Program eligibility that one application for free and reduced priced meals was approved for free meals but qualified only for reduced price meals. The total projected questioned costs for this error were \$72.

Recommendation – All eligibility information associated with applications for free or reduced price meals should be carefully reviewed to insure accurate decisions.

Response – This was an instance where a building principal made the decision to change the eligibility status of the student from reduced to free based on knowledge of hardship faced by the family. The District stands by the decision.

Conclusion – Response acknowledged. The District official had the right to temporarily change the eligibility status of the student. However, all such decisions must be properly documented and reviewed every thirty days per National School Lunch Program eligibility guidelines. The District should document all such decisions and reviews in the future.

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